



# EMPLOYER

California Public Employees' Retirement System

# NEWS

## An Outlook On Public Agency Contribution Rates

Most public agencies currently face budget deficits and, unfortunately, increases in health and retirement rates add to the budget challenges. The series of questions and answers below intend to help you better understand the cause of the higher retirement contribution requirements and where these rates might be headed in the near future. Mitigation strategies already in place, as well as those that may be of assistance to some employers in the future, are also addressed.

### 1. What's causing the large increases in employer retirement contribution rates?

The short answer — investment returns.

A lot of discussion in the media pertains to the new, higher benefit formulas and their increased cost. Higher benefits cost more money, but investment returns drive the current employer rate increases. During the mid- to late 1990s, the U.S. stock market experienced a tremendous boom. The compound annual investment return

at CalPERS was 15.6 percent between July 1, 1994 and June 30, 2000. Over 70 percent of public agency plans maintained a zero contribution rate. The rate for the schools pool held at zero, and the State's rates dropped from over \$1.2 billion down to \$176 million. However, the great boom ended with three fiscal years of returns considerably less than the 8.25 percent assumed in CalPERS actuarial calculations.

- -7.23 percent for fiscal year 2000–2001
- -6.4 percent for fiscal year 2001–2002
- 4 percent for fiscal year 2002–2003.

The good news: the 10-year compounded return for the period ending June 30, 2003, was 8.23 percent and the 15-year period ending June 30, 2003, CalPERS return was 9.38 percent. CalPERS equaled or exceeded the long-term assumed return (8.25 percent) over the past 10 to 15 years.

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### 2. Why were we told that a benefit improvement would cost so little and now our rates are so high?

The CalPERS actuaries base their estimates on all assumptions being exactly realized, including investment return. The new additional benefits do not cost more than you were told. For example: If you received information that a benefit improvement would increase your contribution by 5 percent of payroll, from 10 percent to 15 percent of payroll, and your rate is now 30 percent of payroll, your rate without the benefit improvement would be 25 percent of payroll. That is, the past investment losses would have raised your rate from 10 to 25 percent of payroll had you not adopted a benefit improvement. The cost of the benefit improvement remains at 5 percent of payroll.

## EMPLOYER N E W S

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**Table 1**

	2004–2005 Contribution Rate					
	0%	0–10%	10–20%	20–30%	30–40%	40%+
Percentage of Miscellaneous Plans	15%	53%	30%	2%	0%	0%
Percentage of Safety Plans	3%	7%	23%	44%	21%	2%

### 3. What contribution rates will public agencies pay in fiscal year 2004–2005?

CalPERS actuaries completed the June 30, 2002 public agency actuarial valuations in October 2003. These valuations set the employer contribution rates for fiscal year 2004–2005. Through the asset smoothing technique (discussed in a subsequent question and answer), these valuations continued to recognize a portion of the -7.23 percent investment return for fiscal year 2000–2001, as well as a portion of the -6.4 percent investment return for fiscal year 2001–2002.

The average miscellaneous rate increased from 3 percent in 2003–2004 to 8 percent of payroll in 2004–2005 and the average safety rate increased from 14 percent in 2003–2004 to 27 percent of payroll in 2004–2005.

**Table 1** above shows the distribution of the 2004–2005 contribution rates for miscellaneous and safety plans. For example, 53 percent of miscellaneous plans will have a contribution rate between 0 and 10 percent of payroll in fiscal year 2004–2005.

Member contributions (whether paid by the employer or the employee) are in addition to the above rates unless the plan is superfunded.

### 4. Why are contribution rates for safety plans so much higher and more volatile than contribution rates for miscellaneous plans?

Safety plan benefits at CalPERS are higher than miscellaneous plan benefits, and typically safety members retire earlier than miscellaneous members. For this reason the average normal cost (i.e., annual premium cost without regard to the plan's surplus or unfunded liability) remains about twice as much for safety plans (about 16 percent of payroll) as for miscellaneous plans (about 8 percent of payroll).

However, as stated above, the negative investment returns recognized so far increased the average safety plan's rate much more dramatically than the average miscellaneous plan's rate. Specifically, the average miscellaneous plan rate is "just" up to the average normal cost of 8 percent of payroll while the average safety plan's rate changed from 14 percent of payroll, below the average 16 percent normal cost, to 27 percent of payroll — well above the average safety plan normal cost.

Because of higher benefits, shorter working careers and longer periods of retirement,

safety plans must accumulate more assets per member in a shorter period of time than miscellaneous plans. As a result, assets of safety plans remain approximately 8 times the covered payroll of active members on average, while miscellaneous plan assets tend to be on average about 4 times the covered payroll of active members.

The plan's contribution rate receives an adjustment as a percent of the covered payroll of active members when there is an asset loss or asset gain. So, the impact of the asset loss (expressed as a percent of payroll) averages twice as great for safety plans as it is for miscellaneous plans.

## 5. What events might impact future employer rates?

CalPERS actuaries use a number of assumptions about the future in their annual process of valuing retirement benefits and setting employer contribution rates. Some of the actuarial assumptions:

- The rate of interest that the fund is expected to earn on average over the future lifetime of current members.
- The average future inflation rate.
- Future salary increases.
- The percentage of employees that will refund, terminate, retire, and die each year in the future.

Any significant differences between actual future experience, either demographic (e.g., retirements, disabilities, deaths, terminations) or economic (e.g., inflation, investment return or pay increases) impacts your contribution rates.

## 6. What contribution rates can public agencies expect to pay in 2005–2006?

The poor economy continued to impact CalPERS investment returns through June 30, 2003. The investment return for the fiscal year 2002–2003 was approximately 4 percent. Since this actual return was less than the assumed 8.25 percent, estimates show that the average miscellaneous rate increases to 10 percent of payroll in 2005–2006 and the average safety rate increases to 30 percent of payroll in 2005–2006.

**Table 2** below shows the estimated distribution of the estimated 2005–2006 contribution rates for miscellaneous and safety plans.

In the mailing of recent actuarial reports, our cover letter includes an estimate of the plan's expected contribution rate for fiscal year 2005–2006.

Member contributions (whether paid by the employer or the employee) are in addition to the above rates unless the plan is superfunded.

The above estimates assume no gains or losses (such as larger than expected pay increases, more retirements than expected, etc.) during 2002–2003, other than the

4 percent investment return. This is a very significant assumption because these gains and losses do occur every year and can have a significant effect on contribution rates.

While it is less common for the largest plans, liability gains and losses can cause a change in the employer's contribution rate of one or two percent or more. The contribution rates for smaller plans are much more sensitive to these liability gains and losses. Unfortunately, these gains and losses cannot be predicted.

One known event impacting contribution rates for fiscal year 2005–2006 is the settlement between CalPERS and the federal Equal Employment Opportunity Commission (EEOC) over a 1980s law governing industrial disability calculations for safety members ("Arnett case"). Estimates show that on average the settlement impacts the contribution rate of safety plans by less than one percent of payroll. The actual impact on each plan depends on the demographic characteristics of that plan, the number of job-related disabled individuals in the plan, and the service retirement formula applicable to the members of the plan (the higher the formula, the smaller the impact from the Arnett settlement).

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**Table 2**

	Estimated 2005–2006 Contribution Rate					
	0%	0–10%	10–20%	20–30%	30–40%	40%+
Percentage of Miscellaneous Plans	10%	49%	37%	3%	0%	0%
Percentage of Safety Plans	1%	7%	17%	39%	30%	5%

## Public Agency Rates — Continued from page 3

### 7. Where might employer contribution rates be in five years?

As explained earlier, contribution rates fluctuate each year when the actual experience of the plan differs from the assumptions used by the actuaries. As a result, making an estimate on contribution rates five years down the road is a difficult task.

The most simplistic approach to estimate future rates is to assume that **all** actuarial assumptions will be **exactly** realized over each of the next 5 years, including earning exactly 8.25 percent each of the next 5 years. This is a fairly unlikely scenario because the assumptions act as long term average predictors, not year-by-year predictors.

Under this scenario the average miscellaneous employer rate expects to increase to 12 percent of payroll by fiscal year 2009–2010 and the average safety employer rate expects to increase to 33 percent of payroll by fiscal year 2009–2010.

The reason for the continued increase in contribution rates, even if all assumptions are exactly met, is the continuous recognition of the remaining unrecognized asset losses through June 30, 2003. Under the asset smoothing technique asset gains and losses become recognized over time. As a result, contribution rates gradually increase over the next 5 years as the asset smoothing technique fully recognizes the recent past market losses.

To give a better sense of how assumption deviations impact the rates, the CalPERS

Table 3			
	5 <sup>th</sup> Percentile	Average Rate	95 <sup>th</sup> Percentile
Percentage of Miscellaneous Plans	4%	12%	20%
Percentage of Safety Plans	4%	33%	71%

actuaries projected the average future contribution rates using a simulation model and thousands of trials simulating gains and losses from both investments and liabilities.

The results of the simulation created percentiles. **Table 3** above shows the percentiles for the contribution rate for fiscal year 2009–2010.

In 5 percent of the simulation trials, the average miscellaneous rate for 2009–2010 was less than 4 percent of payroll while in 95 percent of the simulation trials it was less than 20 percent of payroll. Another way of reading the table shows that 90 percent of the time the average miscellaneous rate in 2009–2010 fell between 4 percent of payroll and 20 percent of payroll. Similarly, in 5 percent of the simulation trials, the average 2009–2010 rate for safety was less than 4 percent of payroll while in 95 percent of the simulation trials it was less than 71 percent of payroll. Another conclusion is that 90 percent of the trials produced an average safety rate of between 4 percent of payroll and 71 percent of payroll.

### 8. What is CalPERS doing to mitigate the fluctuations in contribution rates?

CalPERS actuaries use various methods to minimize fluctuations in employer contribution rates:

- Asset smoothing technique to dampen the impact of investment gains and losses.
- Actuarial “gains and losses” that occur when the actual experience differs from the actuarial assumption are amortized over time to smooth out their impact on employer rates.

These two techniques help reduce the volatility in employer rates. For example, during fiscal year 2000–01, the actuarial value of assets was credited with a return of 4 percent while the actual market rate of return of the Public Employees Retirement Fund (PERF) was -7.2 percent. However, little or no smoothing became available when CalPERS experienced the second loss of -6.4 percent in 2001–02 because the asset smoothing is limited to a corridor of 10 percent around the market value of asset (i.e., 90 to 110 percent). Similarly, little or no smoothing will be available to dampen the effect of the 4 percent return in 2002–03.

In addition the implementation of risk pools continues (highlighted below). These risk pools help to reduce rate fluctuations caused by unexpected demographic events. Mandated participation into risk pools for plans with less than 100 active members occurs in the summer of 2004 with the preparation of the June 30, 2003 actuarial valuations. The June 30, 2003 valuations sets the employer contribution rates for 2005–2006 fiscal year.

### 9. What more can be done to mitigate the impact of higher contribution rates?

Two remaining possibilities exist for you to help mitigate the impact of higher contribution rates.

*(1) Request an extension of the amortization of the unfunded liability to 30 years.*

The CalPERS Board recently delegated approval authority to the Chief Actuary for extensions to 30-year amortization of the unfunded liability. Contact your actuary to inquire about the possibility of such extension. The decisions to grant an extension to 30 years will be made on a case-by-case basis.

Aspects reviewed by the actuary include (but not limited to):

- An indication of need for rate relief — a statement of hardship from you, including a statement that you have notified your employees or employee groups of the request for an extension of your amortization period.

- An indication that the extension will, in fact provide rate relief — that is if the current net amortization period is already near 30 years, then extending to 30 years will not produce measurable rate relief and is unwarranted.
- An indication that the reductions in your rate will produce no long-term harm to your plan.

*(2) The issuance of Pension Obligation Bonds (POB) provides another option for you to help pay your contributions when faced with budget deficits.*

The POB is a general obligation bond where the proceeds are used to help pay for the required retirement contributions.

Financial risks exist with the issuance of a POB. When issuing a POB, you look for the proceeds of the POB to earn a higher rate of return than the cost of the debt. If the return on the proceeds comes out lower than the cost of the debt, you are at risk.

Proceeds of the POB are invested among various asset classes in accordance with the asset allocation approved by the CalPERS Board. Even though the actuarial rate of return assumption might be greater than the cost of the debt, no guarantees exist that the CalPERS return will equal or exceed the cost of the debt and that savings will materialize over time. Furthermore, in the first few years, if the POB return on proceeds are below expectations, employers faced with short-term budget deficits might be subject to further challenges. □

## Risk Pooling

The Winter 2003 edition of the *Employer News* featured an article regarding the upcoming implementation of risk pools at CalPERS. The article discussed the benefits of risk pools, as well as the various issues facing CalPERS during the design of risk pools. Since that time, CalPERS achieved several accomplishments.

In June of 2003, the CalPERS Board provided the “go ahead” to add article 7.5 to Title 2 of the California Code of Regulations to establish criteria for participation into risk pools, which includes

mandated participation for rate plans with less than 100 active members.

CalPERS is continuing to work on the regulatory approval process and expects to have these regulations in place by June 30, 2004.

These regulations allow CalPERS to begin the creation of risk pools; viable, fairly administered, maintain benefit flexibility



## Risk Pooling — Continued from page 5

for employers and help reduce fluctuation in employer rates at CalPERS.

A circular letter sent in late 2003, provided more details on pooling. For additional information on pooling visit the CalPERS Web site at [www.calpers.ca.gov](http://www.calpers.ca.gov).

### Summary of Regulations

- Plans with *less than 100* active members will be mandated in the summer of 2004 into risk pools. An opportunity exists for others to voluntarily join beginning in November 2004, unless it would be harmful to the pool.
- Plans will be assigned to one of the following 9 risk pools based on their service retirement formula:
  - Miscellaneous 2% @ 60 pool
  - Miscellaneous 2% @ 55 pool
  - Miscellaneous 2.5% @ 55 pool
  - Miscellaneous 2.7% @ 55 pool
  - Miscellaneous 3% @ 60 pool
  - Safety 2% @ 55 (will also include plans with the 1/2 @ 55 safety formula)
  - Safety 2% @ 50 pool
  - Safety 3% @ 55 pool
  - Safety 3% @ 50 pool
- School districts will be allowed to voluntarily leave the school's pool and join a public agency risk pool if they amend for either the 2.5% @ 55, 2.7% @ 55 or the 3% @ 60 benefit formula. Availability begins November 2004 for cost information on the impact of voluntary participation.
- Plans that contract in the future for a higher service retirement formula will have the ability to transfer from their then-current pool to the pool offering the new service retirement formula.
- Once a plan is in one of the risk pools, it will not be allowed to leave the risk pool structure and become a stand-alone plan.
- All optional benefits will be available to plans participating in risk pools. Each benefit is assigned to one of three classifications based on the cost impact of the benefit. For more information on the three classifications, visit the CalPERS Web site mentioned above.
- Optional benefits will be allowed to vary within the same pool but an employer contracting for a more expensive ancillary benefit is required to pay a surcharge in addition to the pool's rate.
- A side fund will be established for each plan as it enters a pool. That side fund takes into account the level of assets and liabilities in effect at the time of joining a risk pool. These side funds will be amortized over time and will add or subtract from that employer's contribution rate.
- Determination of the superfunded status will be completed on a plan by plan basis for plans participating in risk pools.

### Implementation of Risk Pools

The implementation process focuses on methods to minimize the impact on employer contribution rates. The first year into risk pools, the employer contribution rates remain almost identical to what the rates would have been outside pools. However, Government Code Section 20840 (e) requires that each pool must contain certain benefits (see list below). CalPERS actuaries estimate the impact of mandating these benefits will be less than one percent of payroll.

The following benefits (previously optional contract provisions) will now be mandated for plans participating in risk pools:

### Risk Pooling For Local Agencies

- Will be effective for the 2005–2006 employer contribution rate
- Participation will be mandatory for plans with less than 100 active members
- Plans will be assigned to a risk pool based on the benefit formula applicable to active members

### Risk Pooling For Schools

- Participation is voluntary
- Will only be allowed to join the 2.5% @ 55, 2.7% @ 55 or the 3% @ 60 Miscellaneous pools.
- CalPERS expects to be able to provide cost information beginning in November 2004

- The pre-retirement option 2 death benefit — i.e., a death benefit, payable to the spouse of an active member eligible to retire, equal to what the spouse would have received if the member retired, elected the 100 percent joint and survivor form of benefit and then died.
- The conversion of unused sick leave to retirement service credit.
- The ability for members to convert, at their own expense, prior military service and prior public service to CalPERS retirement service.
- The cancellation of any remaining payments owed by the member for the purchase of optional service credit upon the employment related disability of the member (i.e., upon industrial disability retirement or IDR as it is called).
- Local system service credit included in basic death benefit.

Mandated participation into risk pools occurs in the summer of 2004 in correlation with the preparation of the June 30, 2003, actuarial valuations. The June 30, 2003, valuations set

the employer contribution rates for 2005–06 fiscal year. The active membership of each rate plan as of June 30, 2003, determines whether or not that rate plan will be mandated into risk pools upon implementation. Benefits as of June 30, 2004, (or thereafter) determine which pool a plan must enter.

School districts and public agencies with non-mandated rate plans will be able to contact CalPERS to join the newly created risk pools beginning November 2004, following the completion of the June 30, 2003, valuations. □

## Connections Made at CalPERS 2003 Educational Forum

The fourth annual CalPERS Educational Forum took place for the first time in the dynamic city of San Francisco from October 20–22. Famous for its awe-inspiring bridges, the city helped underscore the theme of this year's Educational Forum — Connections — an emphasis on the importance of maintaining valuable relationships.

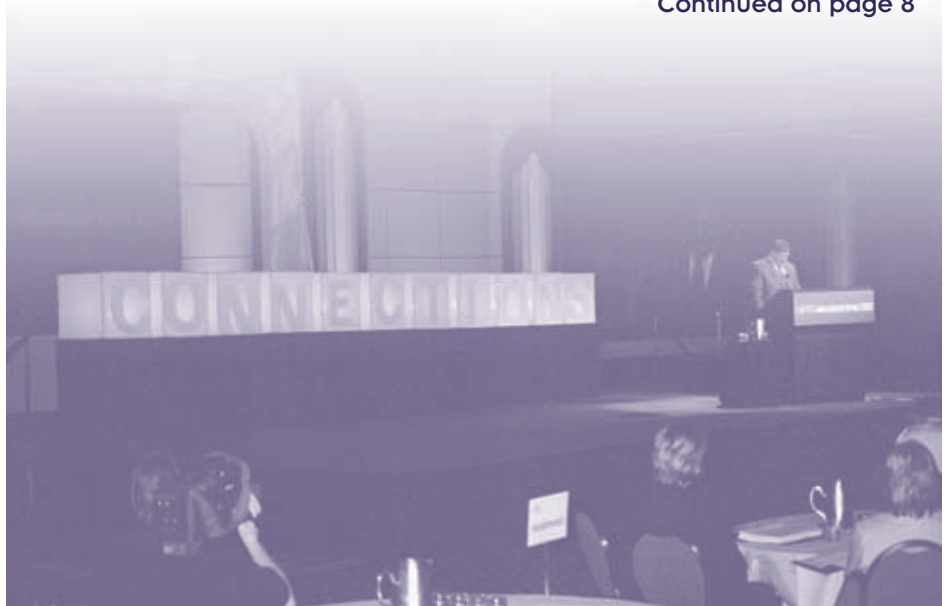
Monday's opening general session began on a high note — with a guest appearance by switchboard operator Ernestine (the character made famous by Lily Tomlin) portrayed by CalPERS employee Pat Parsell. A collaborative musical performance followed, featuring the talents of more than 20 employers and CalPERS staff.

CalPERS Chief Actuary Ron Seeling served as the official emcee for the event, held at

the San Francisco Hilton Hotel. Dr. Seeling discussed service enhancements such as the new Employer Contact Center and reported on the many prominent issues affecting both CalPERS and employers, particularly health care, in his opening remarks.

"Health care, with its escalating cost, is CalPERS number one issue and the highest priority with the CalPERS Board and Executive staff," said Dr. Seeling.

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## CalPERS Educational Forum — Continued from page 7

To continue that discussion was Monday's keynote speaker, Dr. Henry Simmons, president of the National Coalition on Healthcare. Dr. Simmons spoke about the magnitude of problems currently facing the Nation's healthcare system, and likened it to "The Perfect Storm." Instead of ignoring the warnings, Dr. Simmons urged employers to work with CalPERS to achieve specific healthcare reforms in California that will force the national debate to move toward solutions. Attendees received more than 20 informative sessions designed to further their knowledge of CalPERS programs and policies throughout the three-day event. Three different workshop tracks helped attendees make the most of their time, whether their interests were focused on daily administration, future direction, or helping employees.

In addition to the workshops, 13 exhibits featured representatives of popular programs such as the Automated Communication Exchange System (ACES), CalPERS Deferred Compensation, and Member Home Loans. A host of interactive computer stations also

encouraged attendees to experience the latest elements of Internet-based programs such as ACES and explore the CalPERS Web site for new employer-specific features.

Several discussions on service credit costing were added to the forum agenda due to the massive interest in newly passed legislation AB 719, commonly known as the Additional Retirement Service Credit, or "airtime bill". Attendees raised questions on the subject to the service credit exhibit booth throughout the three-day event.

Opportunities for networking helped attendees connect with their peers, as well as with CalPERS leadership. At Tuesday's general session, attendees heard the first-hand perspective of Sean Harrigan, President of the CalPERS Board of Administration. And back by popular demand, the ever-popular question and answer panel composed of CalPERS executives and Board members at Wednesday's closing general session provided the type of open dialogue the Educational Forum is known for.

More than 400 attendees took advantage of this year's event. Though their job descriptions certainly varied — attendees included a variety of city managers, finance directors, personnel directors, and designated representatives, as well as school and State representatives — there was truly something for everyone.

In addition to promoting both learning and information sharing, the 2003 Educational Forum helped to enhance the relationship between CalPERS and you and strengthen the connection we share. As one attendee noted, "This was a 'world-class' forum — a great value for the cost! It was my first CalPERS conference, but I will attend again in the future. Thank you!"

If you missed the opportunity this year, make plans now to join our 2004 event. Plans are already underway to bring this annual gathering to Anaheim, California next October. Watch for official announcements of dates and location in the next issue of the *Employer News*. □



*Fred Buenrostro, CalPERS CEO*



*Juan Carrillo, Priya Mathur, Nancy Gonchar, Barbara George, Barry Hessenius, Judy Nemzoll, & Wayne Cook*





*Mike Hardin, Actuarial & Employer Services Manager, & Glenda O'Rourke, Member Services Division Manager, assist employers at registration*



*Keith Riddle, Actuarial & Employer Services Representative, demonstrates ACES*



*Priya Mathur, Barbara Hegdal, Ron Seeling, Kathy Vaughn, & Patricia Macht*



*Exhibit booths were available for employers to gather information*



*Dr. Ron "Carnac" Seeling answering questions from the audience*



*Attendees were entertained by the CalPERS Educational Forum speakers*

## Legislation of Interest to Employers

The following summary includes a number of chaptered bills that may be of primary interest to State and local agency employers, including schools. The provisions of the bills become law effective January 1, 2004, unless it was urgency legislation in which case they became effective as soon as the bill was chaptered. Additional information (e.g., bill language, legislative analysis, bill history, etc.) can be found on the Official California Legislative Information web site: [www.leginfo.ca.gov](http://www.leginfo.ca.gov).

For a complete list of all bills analyzed by CalPERS, please visit [www.calpers.ca.gov](http://www.calpers.ca.gov).

### **Domestic Partner Benefits**

*A.B. 205, Goldberg (Chapter 421, Statute of 2003)* — Extends the rights and duties of marriage to persons registered as domestic partners on and after January 1, 2005. Does not apply to CalPERS long-term care plan. Preserves local agency authority to determine domestic partner eligibility.

### **Memorandum of Understanding: State Employee Benefits**

*A.B. 375, Bermudez (Chapter 615, Statute of 2003)* — Contains provisions of the memoranda of understanding between the

State and Bargaining Units 1, 4, 10, 11, 14, 15, 16, 17, 19, 20 and 21. Addresses pay raise deferral, salary for final compensation, and a new health benefits employer contribution.

### **Home Loan Program**

*A.B. 475, Correa (Chapter 97, Statute of 2003)* — Authorizes CalPERS to increase the maximum Member Home Loan Program loan from the present level of 95 percent of value to a level of 100 percent. (This was a CalPERS-sponsored bill.)

### **Discontinue Service Credit Payments**

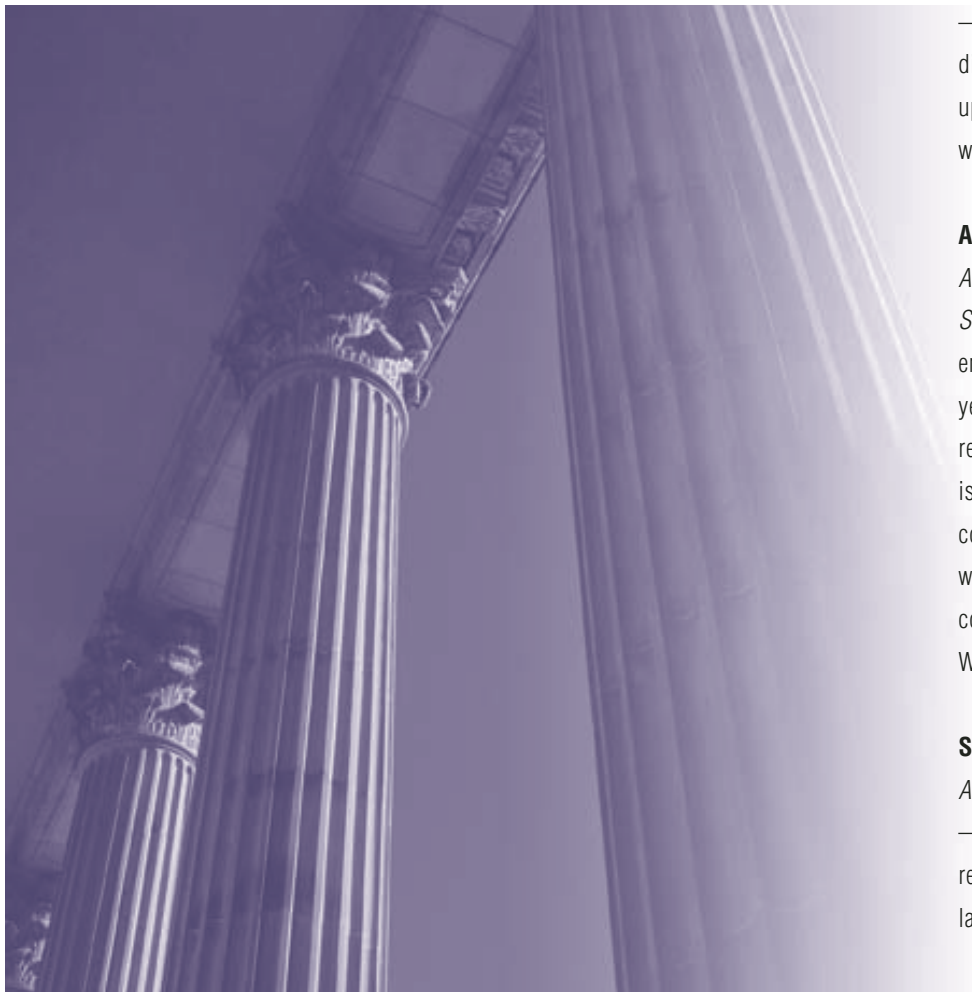
*A.B. 552, Chavez (Chapter 835, Statute of 2003)* — Permits specified public safety members to discontinue service credit purchase payments upon industrial disability if the purchase would not increase their allowances.

### **Additional Service Credit Purchase**

*A.B. 719, Negrete McLeod (Chapter 838, Statute of 2003)* — Enables eligible employees to purchase up to 5 additional years of service credit. Since the member is responsible for the full cost of this benefit, it is important to closely evaluate the benefit and cost before electing the purchase. CalPERS will accept rollovers from qualified deferred compensation plans. Please check CalPERS Web site for more information.

### **Special Death Benefit Beneficiary**

*A.B. 933, Reyes (Chapter 840, Statute of 2003)* — Expands the definition of a child eligible to receive specified death benefits on behalf of a law enforcement officer to include a stepchild,



as specified. Contains a retroactive effective date of January 1, 2001.

### Memorandum of Understanding:

#### State Employee Benefits

*A.B. 977, Diaz (Chapter 616, Statute of 2003)*

— Contains provisions of the memoranda of understanding between the State and Bargaining Unit 9. Addresses pay raise deferral, salary for final compensation, and a new health benefits employer contribution.

#### Health Benefits for Domestic Partners

*A.B. 1082, Laird (Chapter 764, Statute of 2003)* — Expands health benefit enrollment eligibility for domestic partners of active and retired public agency employees to be consistent with the criteria adopted by the agency prior to January 1, 2000.

#### Continuity of Health Care

*A.B. 1286, Frommer (Chapter 591, Statute of 2003)* — Requires health plans that terminate a provider relationship to notify enrollees at least 60 days prior to the termination, and transfer enrollees to other providers. Also requires enhanced continuity of care rights for enrollees undergoing treatment.

#### Rural Health Care Equity Program

*A.B. 1756, Budget Committee (Chapter 228, Statute of 2003)* — Specifies that annuitants who move out of state after July 1, 2003 are no longer eligible for the subsidies under the Rural Health Care Equity Program (RHCEP). Urgency legislation, effective August 11, 2003. Important: Language

pertaining to this program is also in A.B. 1765 (eff. August 2, 2003) and A.B. 296 (eff. January 1, 2004) The Department of Personnel Administration, which administers the RHCEP, is responsible for establishing and clarifying the eligibility requirements for this program.

#### Health Care Coverage Mandate

*S.B. 2, Burton (Chapter 673, Statute of 2003)* — Requires employers under specific conditions to provide health benefits coverage to eligible employees and dependents, and pay at least 80 percent of the premium. The earliest the law would go into effect would be January 1, 2006.

#### Discontinue Service Credit Payments

*S.B. 268, Soto (Chapter 855, Statute of 2003)* — Allows certain members (or their survivors) to prospectively discontinue service credit purchase payments if the member becomes disabled or dies under special death circumstances and the service credit purchase will not increase the allowance. This bill would also provide a new retirement calculation for any member whose retirement account has been separated pursuant to a community property settlement, and establishes certain rights for members. (This was a CalPERS-sponsored bill.)

#### Late Agency Contributions, Mergers, and Benefit Reductions

*S.B. 271, Soto (Chapter 462, Statute of 2003)* — Allows CalPERS to assess interest and penalties when agency contributions are not paid timely, merge terminated plans into a

special pool and determine benefit reductions if necessary due to inadequate funding. (This was a CalPERS-sponsored bill.)

#### Health Program Stability

*S.B. 436, Soto (Chapter 462, Statute of 2003)*

— This bill, sponsored by CalPERS, seeks to improve the stability of the PEMHCA health program by giving CalPERS the authority to offer alternative benefit designs or regionally priced premiums for contracting agencies.

#### Memorandum of Understanding: State Employee Benefits

*S.B. 439, Senate Public Employment & Retirement Committee (Chapter 617, Statute of 2003)* — Contains provisions of the memoranda of understanding between the State and Bargaining Units 5 and 8. Addresses pay raise deferral, salary for final compensation, and a new health benefits employer contribution.

#### Special Note: “Golden Handshake” (Vetoed by the Governor)

In addition to the above, the “Golden Handshake” bill (*A.B. 457, Negrete McLeod*) was closely watched by employers, as well as employees. However, that bill was ultimately vetoed by the Governor.

#### A.B. 457 Veto Message:

*I am returning Assembly Bill 457 without my signature.*

## Legislation of Interest — Continued from page 11

*This bill would authorize the State of California, the California State University System, the Judicial Branch, CalPERS contracting agencies, local schools and community colleges, and 1937 Act counties to offer an incentive of up to two years service credit or two years of age to employees who agree to retire within a certain timeframe.*

*While this bill contains many safeguards, including requirements that the incentive*

*is bargained for and that cost savings must result, there is still a very real potential that public employers will be paying to encourage retirements that would have occurred even without that incentive. Further the existence of a retirement incentive program such as a "Golden Handshake" has the unintended consequence of delaying rather than encouraging timely retirements; specifically, employees who normally would retire delay that retirement awaiting the implementation of a Golden Handshake.*

*At any rate, I have already signed A.B. 719 and A.B. 55 this year, which would allow State and local government employees to purchase up to 5 years of service to enhance retirement benefits. These benefits will encourage early retirement at no cost to the public employer. Therefore, I am unable to sign this bill.*

*Sincerely, GRAY DAVIS □*

## Coming Soon to a Location Near You! CalPERS Employer Education Workshop Modules

- Do you need a refresher on CalPERS reporting procedures?
- Which employees qualify for CalPERS membership?
- Do the payroll reporting codes leave you guessing?
- What is Special Compensation?

Receive answers and explanation to these questions in the new CalPERS Employer Education Modular Workshops. Two Modules to choose from:

### Module 1: Membership (2 hours)

- Special Compensation (What is reportable?)
- Determining membership eligibility.
- The employer's role in the retirement process.

### Module 2: Payroll (2 hours)

- Special Compensation (How it is reported?)
- Payroll Reporting Elements.
- How payroll reporting impacts employees' benefits.

CalPERS staff also provide education on the Annual Employer Statement, Optional Contract Provisions, Excluded Positions and Optional Members, the CalPERS Automated

Communication Exchange System (ACES), Service Retirement, Sick Leave Certification, Service Credit Purchases, Legislation, Social Security and other CalPERS Programs. The *CalPERS Procedure Manual* remains a topic for discussion, so bring a copy of the manual to the workshop. If you need additional copies of the *CalPERS Procedures Manual* or want additional information, please call our Employer Contact Center at (888) CalPERS (225-7377).

These workshops focus primarily on Human Resources, Personnel, Benefits and Payroll staff of our contracting public agencies and county schools.

Your agency's Manual Coordinator receives a notice and registration form approximately eight weeks before the scheduled workshop in your area to complete and return to CalPERS. Once you submit the registration forms to the CalPERS Manual Coordinator you receive notification of the date, time and location of the workshop by confirmation letter.

To view the Workshop Module schedule, visit the CalPERS Web site at [www.calpers.ca.gov](http://www.calpers.ca.gov). □

## The Role of CalPERS Field Auditors

Since 1991, the CalPERS Office of Audit Services field auditors have provided information to contract agencies in a number of different areas such as compensation, membership eligibility, coverage classification, contract provisions, industrial disability retirements, and the employment of retired annuitants. Auditors ensure that agencies report appropriate and accurate information which helps members make informed and timely retirement decisions.

Auditors frequently hear the question, "why did you pick my agency to audit?" There are approximately 2500 contracting agencies. Out of that number, the 7 members of the field audit team conduct 40 audits per year. The team audits schools, county offices of education, public agencies and district agricultural associations. Auditors analyze many different factors in order to determine the agencies selected for audit during the fiscal year. The team generates statistical reports concerning pay rates and special compensation based on information reported by agencies. The team also considers agency contract provisions and receives scheduling requests for an audit. At other times, media attention may generate an audit. Typically a combination of factors determines whether you receive an audit.

If you are scheduled for an audit, you can expect an auditor to remain at your agency anywhere from one-to-two weeks based on the size of your agency. Some of the typical records requested are payroll registers, personnel files, salary schedules, IRS forms

1099, Memorandum of Understanding for all bargaining units, and reports that monitor the hours worked for temporary employees and retired annuitants. The auditors usually review a sample of agency and members' records for a three year period.

After the auditors analyze what you have been reporting to CalPERS and determine your level of compliance with the Government Code and CalPERS procedures, they issue a draft report to your agency. The draft report consists of detail areas where the audit sample indicates

your agency is not in compliance. You are provided an opportunity to respond to the draft report, which allows your comments to be included in the final report. The Actuarial and Employer Services Division and the Benefits Services Division receive copies of the final report to work with you and resolve any issues identified in the audit.

Throughout this entire process, auditors remain a valuable resource to use as they have an extensive knowledge of reporting procedures and requirements. □

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## ACES Receives Award



CalPERS Automated Communication Exchange System (ACES) recently won the "Digital Government — Government to Government" award from The National Association of State Information Officers (NASCIO). This award is for digital government initiatives aimed at enhancing government to government interaction, transactions and/or services. NASCIO recognized ACES for innovation and excellence in providing better government services at lower cost!

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ACES allows you to transfer information about your employees necessary for their participation in the retirement and health programs and to submit required payroll

**ACES Receives Award —  
Continued on page 14**



## ACES Receives Award — Continued from page 13

reports to CalPERS electronically. ACES makes the job of keeping CalPERS up to date with the most current and accurate information easier and faster, saving time and money.

Over 1790 employers use ACES. Are you? And if you use ACES are you using all of the features available?

**Are you** still mailing your payroll diskette or tape?

- In just a few minutes we can tell you by telephone how to use ACES to transfer your payroll information on-line.

**Are you** still completing paper forms to notify CalPERS of member transactions such as when someone is hired or when someone terminates employment?

- Using ACES internet forms or file transfer, all member transactions you currently do on an AESD-1 form can be done on-line.

**Are you** still completing paper forms to notify CalPERS of enrollments or changes in health benefits coverage for your employees?

- Use ACES to transfer that health coverage information on-line too.

## Why use ACES? There's just no reason not to!

**It's fast!** All transactions submitted by the cut-off time today will be updated and viewable tomorrow.

**It's economical!** No postage, no envelopes, no diskettes or tapes, and fewer paper documents to maintain and store. Paper documents should not be sent to CalPERS for transactions successfully done through ACES.

**It's easy!** Anyone can use ACES successfully. We will even show you how.

*Future training opportunities include:*

- **February 2004 — San Bernardino**
- **March 2004 — Mountain View**

*Watch our Web site for updates.*

**It's secure!** Employers assign Account Administrators and submit User Security Agreements to CalPERS. The Account Administrators ensure security and data integrity by:

- securing and maintaining User Security Agreements for all staff authorized to access ACES (form AESD-43); and

- disabling access to ACES and notifying CalPERS when an employee no longer needs access to ACES (form AESD-42).

Note: The AESD-42 and AESD-43 forms are available in the ACES User Guide or they may be downloaded from our Web site:

**[www.calpers.ca.gov](http://www.calpers.ca.gov).**

For optimum performance with the ACES application, upgrade your Internet browser to either Internet Explorer 6.0 or Netscape 7.0.

CalPERS would like to thank all the employers who stopped by the ACES Exhibit Booth during the **San Francisco Employer Educational Forum** (highlighted in this edition). We appreciate the feedback and suggestions to further improve our system. Many of you previewed the ACES Training CD and signed up to receive a copy when it is released late spring. We will announce availability by ACES Notification for those who didn't sign up.

As always, if you have questions call our Employer Contact Center (ERCC) at (888) CalPERS (225-7377). □

Communicating Electronically With Employers

## Events of Interest – February through March 2004

Date	Event	Location
<b>February 11</b>	Finance Committee	CalPERS, Auditorium, Sacramento
<b>12</b>	Holiday – Lincoln's Birthday, State Offices Closed	
<b>16</b>	Holiday – Washington's Birthday, State Offices Closed	
<b>17</b>	Investment Committee	CalPERS, Auditorium, Sacramento
<b>18</b>	Health Benefits Committee Benefits and Program Administration Committee	CalPERS, Auditorium, Sacramento
<b>19</b>	Board of Administration	CalPERS, Auditorium, Sacramento
<b>25</b>	School Employer Advisory Committee	CalPERS Rooms 1170 / 1180
<b>March 12</b>	Performance & Compensation Committee Investment Policy Subcommittee	CalPERS, Auditorium, Sacramento
<b>15</b>	Investment Committee	CalPERS, Auditorium, Sacramento
<b>16</b>	Health Benefits Committee Benefits and Program Administration Committee	CalPERS, Auditorium, Sacramento
<b>17</b>	Board of Administration	CalPERS, Auditorium, Sacramento
<b>31</b>	Holiday – Cesar Chavez Day, State Offices Closed	

*Note: Meeting times are announced, when they become available, through Circular Letters and on our Web site. Meetings are subject to change.*

*CalPERS: 400 P Street, Sacramento*

## Video Conferencing Available in Three More Regional Offices!

Did you miss the Payroll Reporting workshop when the CalPERS Representative was in your area? Video conferencing allows you to make alternative arrangements. Just call toll free (888) CalPERS (225-7377), tell the agent you wish to set up a video conference for employer education and the arrangements will be made.

CalPERS installed video conferencing equipment in the San Diego Regional Office last year. Now, we expanded this service to three more regional offices: Fresno, Glendale, and San Bernardino.

Each office maintains video conferencing equipment in 2 rooms for either small groups of 12 people or less or larger groups of up to 60 participants.

In addition to payroll reporting workshops, CalPERS arranges video conferencing on a host of other topics:

- actuarial information
- compensation
- membership reporting, and
- retirement contracting issues

So if you would like to take advantage of the video conferencing equipment in the Fresno, Glendale, San Bernardino or San Diego offices, please contact the CalPERS Employer Contact Center at (888) CalPERS (225-7377). Remember to also visit our Web site at **[www.calpers.ca.gov](http://www.calpers.ca.gov)** for the most up-to-date employer education schedule.



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